DISCUSSION OF


–Matthew Richardson,
Roundtable on Treasury Markets and Debt Management, November 18, 2011
Thoughts on debt management – TIPS

- Breakeven inflation (T-Notes minus TIPS yields)
  - Liquidity premium
    - What is liquidity?
    - Clientele effects?
  - Inflation risk premium
    - What does it mean to have risk priced?
Compelling reasons for TIPS

- Completing the market

- Provide regulators/market participants measures of expected inflation based on traded prices as opposed to professional forecasters.
Specific comments

- Plethora of recent papers looking at same thing
  - Pflueger–Viceira (2011) try to measure liquidity more directly.
  - Highlight their contribution relative to others.

- Properties of breakeven inflation
  - 10yr inflation forecasts, 10 yrs of data, highly persistent against liquidity measures / inflation surveys also highly persistent.
  - Why not contemporaneous changes?
Specific comments continued

- What is liquidity?
  - Convert TIPS to cash w/o market impact?
  - Is there something special about Treasuries?
  - Pflueger–Viceira use many measures; there are many more… principal components?
  - Or would a structural model be better?

- Some concerns about estimation methodology
  - Estimate $L$ from $BEI$ over entire sample; then, over same sample, use $L^\wedge$ to analyze relation between $R(L^\wedge)$ against $X(L^\wedge)$. 